

Sonoma County Water Agency

Basic Financial Statements

Year Ended June 30, 2002

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Independent Auditors' Report

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency**, (the "Water Agency"), a component unit of the County of Sonoma, as of and for the year ended June 30, 2002, which collectively comprise the Water Agency's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Sonoma County Water Agency** as of June 30, 2002, and the respective changes in financial position, the results of its operations and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund, Flood Control Fund, Warm Springs Dam Fund and Debt Service Fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the County adopted the provisions of the Governmental Accounting Standards Board (GASB), Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and restated beginning fund balances as described in Note C, as of July 1, 2001.

Independent Auditors' Report (continued)
Sonoma County Water Agency

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2002, on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A") on pages 3 - 14 is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying basic financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the **Sonoma County Water Agency**. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Picanti & Brinker LLP

Santa Rosa, California
September 17, 2002

Management's Discussion and Analysis

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15 - 29) and the accompanying notes to the financial statements (pages 30 - 58).

Financial Highlights

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$301,318,658 (net assets). Of this amount, \$67,784,200 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$16,115,698. The governmental activities accounted for \$9,842,587 of this increase while the balance of \$6,273,111 was generated by the business type activities.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$93,721,433, an increase of \$8,797,035 in comparison with the prior year. Approximately 26% of this total amount, \$24,602,405, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$4,635,178, or 21% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Overview of the Financial Statements (continued)*Government-wide financial statements (continued)*

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and water storage. The business-type activities of the Water Agency include water transmission and sanitation services.

The government-wide financial statements can be found on pages 15 - 17 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18 - 24 of this report.

Overview of the Financial Statements (continued)*Proprietary funds*

The Water Agency maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitation services, both of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 25 - 28.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 -58.

The combining statements referred to earlier in connection with governmental funds and proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 59- 65.

Management's Discussion and Analysis

Year Ended June 30, 2002

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$301,318,658 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (55%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Sonoma County Water Agency's Net Assets

	Governmental		Business-Type		Total	
	2000/01	2001/02	2000/01	2001/02	2000/01	2001/02
Current and other assets	\$ 85,504,969	\$ 94,635,372	\$ 61,936,139	\$ 46,673,817	\$ 147,441,108	\$ 141,309,189
Capital assets	152,830,470	154,380,211	119,574,794	141,177,330	272,405,264	295,557,541
Total assets	238,335,439	249,015,583	181,510,933	187,851,147	419,846,372	436,866,730
Current liabilities	841,943	913,939	8,652,016	5,725,065	9,493,959	6,639,004
Noncurrent liabilities	116,162,102	116,927,663	8,987,351	11,981,405	125,149,453	128,909,068
Total liabilities	117,004,045	117,841,602	17,639,367	17,706,470	134,643,412	135,548,072
Invested in capital assets, net of related debt	37,959,042	39,059,377	108,996,171	127,953,364	146,955,213	167,012,741
Restricted	59,712,943	65,399,402	425,128	1,122,315	60,138,071	66,521,717
Unrestricted	23,659,409	26,715,202	54,450,267	41,068,998	78,109,676	67,784,200
Total net assets	\$ 121,331,394	\$ 131,173,981	\$ 163,871,566	\$ 170,144,677	\$ 285,202,960	\$ 301,318,658

A portion of the Water Agency's net assets, \$66,521,717 (22%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$67,784,200) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$16,115,698 during the current fiscal year. This increase is a result of revenues exceeding expenses in both the governmental and business-type activities.

Management's Discussion and Analysis

Year Ended June 30, 2002

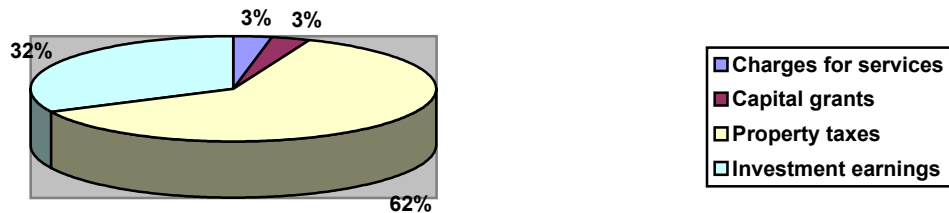
Sonoma County Water Agency's Changes in Net Assets

	Governmental		Business-Type		Total	
	2000/01	2001/02	2000/01	2001/02	2000/01	2001/02
Revenues:						
Program Revenues:						
Charges for Services	\$ 555,224	\$ 682,274	\$ 23,648,692	\$ 27,199,690	\$ 24,203,916	\$ 27,881,964
Capital Grants and Contributions	502,228	651,020	1,891,249	390,387	2,393,477	1,041,407
General Revenues:						
Property Taxes	11,983,913	13,578,148	43,807	45,816	12,027,720	13,623,964
Investment Earnings	7,608,585	7,125,188	3,721,484	1,368,441	11,330,069	8,493,629
Miscellaneous	84,058	155,939	58,003	33,791	142,061	189,730
Total Revenues	20,734,008	22,192,569	29,363,235	29,038,125	50,097,243	51,230,694
Expenses:						
General Government	1,384,344	2,706,040	-	-	1,384,344	2,706,040
Flood Control	6,898,546	3,413,482	-	-	6,898,546	3,413,482
Warm Springs Dam	289,634	25,889	-	-	289,634	25,889
Interest on long-term debt	3,649,707	3,704,571	-	-	3,649,707	3,704,571
Water Transmission	-	-	22,952,390	22,833,848	22,952,390	22,833,848
Sanitation	-	-	2,376,688	2,431,166	2,376,688	2,431,166
Total Expenses	12,222,231	9,849,982	25,329,078	25,265,014	37,551,309	35,114,996
Increase in Net Assets						
Before Transfers	8,511,777	12,342,587	4,034,157	3,773,111	12,545,934	16,115,698
Transfers	(1,916,500)	(2,500,000)	1,244,585	2,500,000	(671,915)	-
Increase in Net Assets	6,595,277	9,842,587	5,278,742	6,273,111	11,874,019	16,115,698
Net Assets - beginning of year	114,736,117	121,331,394	158,592,824	163,871,566	273,328,941	285,202,960
Net Assets - end of year	\$ 121,331,394	\$ 131,173,981	\$ 163,871,566	\$ 170,144,677	\$ 285,202,960	\$ 301,318,658

Governmental Activities

Governmental activities increased the Water Agency's net assets by \$9,842,587, thereby accounting for 61% of the total growth in the net assets of the Water Agency. Key elements of this increase are identified below.

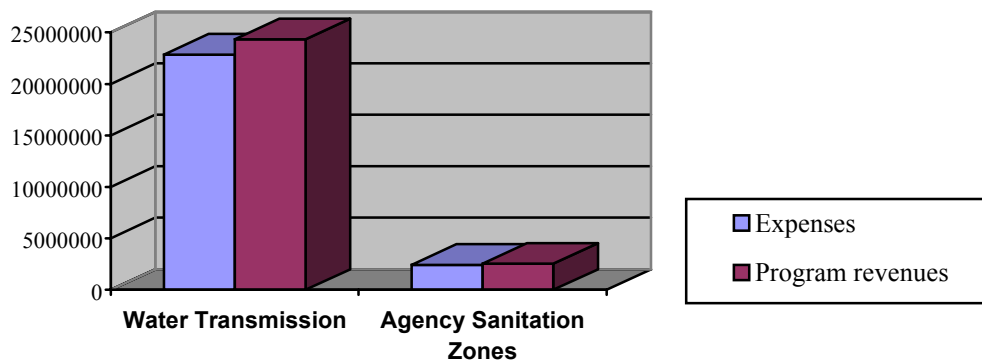
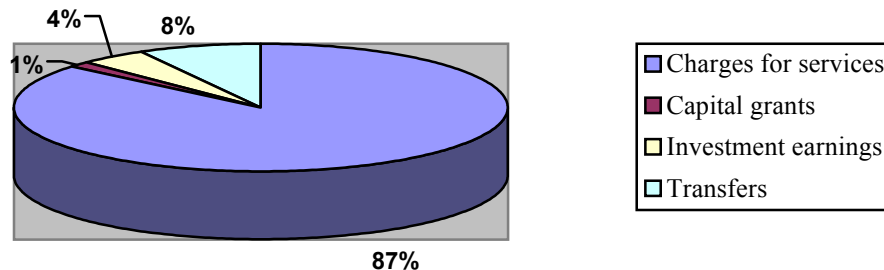
- Property tax revenues of \$13,578,148, including \$2,939,893 received for the purpose of debt retirement and the satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.
- Investment earnings totaling \$7,125,188 due primarily to a \$5,812,687 increase in the fair market value of STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam.
- Revenues for 2001-02 increased by \$1,458,561 over the prior fiscal year while expenditures decreased by \$2,372,249 over the same period. This decrease is due primarily to lower capital project related expenditures within the flood control zones.

Sonoma County Water Agency's Changes in Net Assets (continued)*Revenues by Source – Governmental Activities**Business-type activities*

Business-type activities increased the Water Agency's net assets by \$6,273,111 thereby accounting for 39% of the total growth in the net assets of the Water Agency.

Key elements of this increase are identified below.

- Water sales revenues increased 15%, due primarily to an increase in the operations and maintenance component of the water rates.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's five sanitation zones.
- Transfers from the Water Agency's General Fund totaling \$2,500,000 were received during 2001-02. These transfers were for the purpose of financing various capital projects related to Russian River projects and recycled water. Included in the \$2,500,000 was \$1,700,000 to the Airport/Larkfield/Wikiup Sanitation Zone to provide funding towards the completion of the recycled water portion of Airport/Larkfield/Wikiup's treatment plant upgrade.
- Investment Earnings for FY 2001-02 totaled \$1,368,441.

Sonoma County Water Agency's Changes in Net Assets (continued)*Expenses and Program Revenues – Business-type Activities**Revenues by Source – Business-type activities***Financial Analysis of the Government's Funds**

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

Governmental funds

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$93,721,433, an increase of \$8,797,035 in comparison with the prior year. Approximately 26% of this total amount (\$24,602,405) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$3,011,762), 2) to pay debt service (\$65,399,402), 3) for contingencies (\$75,000), 4) inventories (\$19,864), and 5) for advances (\$613,000).

Financial Analysis of the Government's Funds (continued)

Governmental funds (continued)

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$4,635,178, while total fund balance reached \$6,168,289.

The special revenue fund, consisting of six (6) flood control zones and the Warm Springs Dam has a fiscal year end fund balance of \$22,153,742, of which \$19,967,227 is unreserved with the remaining fund balance of \$2,186,515 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$65,399,402, all of which is reserved for the payment of debt service.

Proprietary funds

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water transmission services at the end of the year amounted to \$27,381,584, and those for the sanitation services amounted to \$6,029,001. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Water Agency's business-type activities.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted revenues of \$238,000 and an increase in appropriations of \$744,800.

The increased budgeted revenues was for anticipated grant funding from the State of California (\$50,000), and the Federal Government (\$188,000) towards a recycled water study. The receipt of this anticipated grant did not materialize during fiscal year 2001/02.

The primary components of the increase in budgeted expenses consists of; 1) \$238,000 for consultant services related to the recycled water study mentioned above, 2) \$143,800 related to planning and design work for Camp Meeker Sewer, and 3) \$250,000 for land acquisition of the Cooley Ranch. The acquisition of the Cooley Ranch is a funding agreement with the Sonoma County Agricultural Preservation and Open Space District towards the purchase of a conservation easement.

Capital Asset and Debt Administration*Capital assets*

The Water Agency's investment in capital assets for its governmental and business type activities as June 30, 2002, amounts to \$295,557,541 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.

Major capital asset events during the current fiscal year included the following:

Governmental Activities:

- Collection system improvements within Flood Control Zone 1A including:
 - Benson Lane Conduit - \$206,000
 - Cotati System B - \$352,000
 - Dennis/Elwin Lane Drainage Improvement - \$194,000
 - Firecrest Avenue storm drain - \$165,000
 - Valparaiso Avenue Storm Drain - \$210,000
- Design and construction of the "C" Street Conduit within Flood Control Zone 2A consisting of approximately 2,700 linear feet of 18 to 48 inch storm drain - \$1,168,414.
- Acquisition of the Cooley Ranch conservation easement to be utilized for watershed protection - \$250,000.

Business Type Activities:

- Capital expansion within the Storage Facilities fund including:
 - Kawana Springs Pipeline - \$5,245,266
- Capital expansion within the Common Facilities fund including:
 - Collectors 1 & 2 expansion - \$1,012,615
 - Wohler emergency generator replacement - \$2,142,751
 - Water Transmission system diversion alternatives - \$569,669
 - Cotati/Kasatania pipeline - \$207,766
 - Pump/Collector Capacity expansion - \$3,798,337
- The installation of the Healdsburg Dam fish ladder - \$1,787,373
- Capital expansion within the Airport/Larkfield/Wikiup Sanitation Zone including:
 - Storage and disposal phases 3 & 4 - \$3,234,274
 - Tertiary treatment upgrades - \$3,507,415

Management's Discussion and Analysis**Year Ended June 30, 2002****Capital Asset and Debt Administration (continued)**

	Sonoma County Water Agency's Capital Assets (net of depreciation)					
	Governmental		Business-Type		Total	
	2000/01	2001/02	2000/01	2001/02	2000/01	2001/02
Water storage rights	\$ 102,371,000	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000	\$ 102,371,000
Land	1,286,938	1,537,528	5,199,100	5,241,190	6,486,038	6,778,718
Buildings and improvements	2,521,401	2,439,879	80,388,008	80,542,381	82,909,409	82,982,260
Machinery and equipment	459,692	410,526	2,279,027	2,456,241	2,738,719	2,866,767
Construction in Progress	7,176,266	9,397,628	31,708,659	52,937,518	38,884,925	62,335,146
Infrastructure	39,015,173	38,223,650	-	-	39,015,173	38,223,650
Total	\$ 152,830,470	\$ 154,380,211	\$ 119,574,794	\$ 141,177,330	\$ 272,405,264	\$ 295,557,541

Additional information on the Water Agency's capital assets can be found in Note F on pages 44 - 46 of this report.

Long-term debt

At the end of the current fiscal year, the Water Agency had a total of \$130,205,406 in outstanding debt consisting of bonds, Federal contract payable, capital leases payable and compensated absences. Of this amount \$723,000 comprises debt backed by the full faith and credit of the government, \$7,475,000 is a special obligation payable from the Water Agency's operating income, \$115,320,834 is a federal contract payable related to the water storage rights at Warm Springs Dam, \$845,385 is related to capital leases, \$1,606,829 is comprised of amounts payable to employees for unused sick and vacation leave upon termination, and \$4,234,358 represents funds advanced to the Water Agency from other governmental entities.

Sonoma County Water Agency's Outstanding Current and Long Term Debt

	June 30, 2001	June 30, 2002	Change
General Obligation Bonds	\$ 752,000	\$ 723,000	(3.86)%
Capital Leases	881,545	845,385	(4.10)%
Revenue Bonds	8,840,000	7,475,000	(15.44)%
Advances from other governments/Due to other funds	562,383	4,234,358	652.93 %
Federal Contract Payable	114,871,428	115,320,834	0.39 %
Compensated Absences	1,552,046	1,606,829	3.52 %
Total	\$ 127,459,402	\$ 130,205,406	2.15%

The Water Agency's total debt increased by \$2,746,004 (2.15%) during the current fiscal year. The increase in the Federal contract payable is the net effect of principal reduction due to the annual debt payments, and the addition of accrued interest on the unpaid principal. The terms of the agreement with the Federal government stipulate that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal.

Management's Discussion and Analysis**Year Ended June 30, 2002****Capital Asset and Debt Administration (continued)**

Advances to/Due from other governments increased due to loan funds received from the State of California Water Resources for the construction of a collection well.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The decrease in general obligation and revenue bonds, as well as capital leases, is related to principal reduction due to the required annual debt payments.

Additional information on the Water Agency's current and long-term debt can be found in Note L on pages 49 - 54 of this report.

Next Year's Budgets and Rates

During the current year, unreserved fund balance in the general fund increased to \$4,635,178. The Water Agency has appropriated \$629,163 of this amount for spending in the 2002-2003 fiscal year budget.

Both the water and sewer rates were increased for the 2002-2003 budget year. The water rates were increased by an average of 2.48%, while the sewer rates increased an average 4.85%.

Following are tables showing the rates charged for acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single dwellings by sanitation district.

**Charges per Acre-Foot for Water Used for
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Forestville Aqueduct	Sonoma Aqueduct
Operations & Maintenance	\$ 339.02	\$ 339.02	\$ 339.02	\$ 339.02
1971 Revenue Bonds - Series 1993A				
Pipeline	4.41	4.82	1.59	4.35
Common	5.16	5.16	5.16	5.16
Storage	18.90	18.90	18.90	18.90
Aqueduct Capital Charge	20.00	30.00	-	20.00
Total	\$ 387.49	\$ 397.90	\$ 364.67	\$ 387.43

Management's Discussion and Analysis**Year Ended June 30, 2002****Next Year's Budgets and Rates (continued)****Rate per Equivalent Single-Family Dwelling**

	June 30, 2001	June 30, 2002	Change
Sanitation Zone			
Graton	\$ 692	\$ 733	5.92%
Sea Ranch	572	590	3.15%
Penngrove	541	565	4.44%
Geyserville	531	554	4.33%
Airport/Larkfield/Wikiup	328	349	6.40%

**Number of Equivalent Single-Family Dwellings
by Sanitation Zone**

	June 30, 2001	June 30, 2002	Change
Sanitation Zone			
Graton	631	637	0.95%
Sea Ranch	495	525	6.06%
Penngrove	471	494	4.88%
Geyserville	324	327	0.93%
Airport/Larkfield/Wikiup	3086	3147	1.98%

Request for Additional Information:

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

Basic Financial Statements
Government-wide Financial Statements

Sonoma County Water Agency

Statement of Net Assets

June 30, 2002

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and investments	\$ 93,886,032	\$ 29,830,914	\$ 123,716,946
Cash and investments with trustee	-	10,523,557	10,523,557
Receivables	116,476	3,581,855	3,698,331
Inventories	19,864	240,060	259,924
Total current assets	94,022,372	44,176,386	138,198,758
Restricted assets			
Cash - revenue bond funds	-	658,197	658,197
Cash and investments with trustee	-	1,619,512	1,619,512
Deposits with others	-	13,000	13,000
Total restricted assets	-	2,290,709	2,290,709
Noncurrent assets			
Deferred charges	-	206,722	206,722
Advance to other funds	613,000	-	613,000
Capital assets (net of accumulated depreciation):			
Intangible asset - water storage rights (Warm Springs Dam)	102,371,000	-	102,371,000
Land	1,537,528	5,241,190	6,778,718
Construction in progress	9,397,628	52,937,518	62,335,146
Infrastructure	38,223,650	-	38,223,650
Buildings and improvements	2,439,879	80,542,381	82,982,260
Equipment	410,526	2,456,241	2,866,767
Total capital assets	154,380,211	141,177,330	295,557,541
Total noncurrent assets	154,993,211	141,384,052	296,377,263
Total assets	249,015,583	187,851,147	436,866,730

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Net Assets (continued)

June 30, 2002

	Governmental Activities	Business-type Activities	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	903,111	4,338,559	5,241,670
Due to other funds	-	7,929	7,929
Deferred revenue	10,828	-	10,828
Total current liabilities payable	913,939	4,346,488	5,260,427
Current liabilities payable from restricted assets			
Deposits from others	-	4,230	4,230
Interest payable	-	131,786	131,786
General obligation bonds payable	-	29,000	29,000
Capital lease payable	-	38,549	38,549
Revenue bonds payable	-	1,175,012	1,175,012
Total current liabilities payable from restricted assets	-	1,378,577	1,378,577
Noncurrent liabilities			
Compensated absences	1,606,829	-	1,606,829
General obligation bonds payable	-	694,000	694,000
Capital leases payable	-	806,836	806,836
Revenue bonds payable	-	6,254,140	6,254,140
Long-term contracts payable	115,320,834	-	115,320,834
Advance from other governments	-	4,226,429	4,226,429
Total noncurrent liabilities	116,927,663	11,981,405	128,909,068
Total liabilities	117,841,602	17,706,470	135,548,072
Net assets			
Invested in capital assets, net of related debt	39,059,377	127,953,364	167,012,741
Restricted for debt service	65,399,402	1,122,315	66,521,717
Unrestricted	26,715,202	41,068,998	67,784,200
Total net assets	\$ 131,173,981	\$ 170,144,677	\$ 301,318,658

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency

Statement of Activities

For the Year Ended June 30, 2002

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs							
Governmental activities:							
General government	\$ 2,706,040	\$ 590,155	\$ -	\$ 501,004	\$ (1,614,881)	\$ -	\$ (1,614,881)
Flood control	3,413,482	92,119	-	103,815	(3,217,548)	-	(3,217,548)
Warm Springs Dam	25,889	-	-	46,201	20,312	-	20,312
Interest on long-term debt	3,704,571	-	-	-	(3,704,571)	-	(3,704,571)
Total governmental activities	9,849,982	682,274	-	651,020	(8,516,688)	-	(8,516,688)
Business-type activities:							
Water transmission	22,833,848	25,044,620	-	-	-	2,210,772	2,210,772
Sanitation	2,431,166	2,155,070	-	391,318	-	115,222	115,222
Total business-type activities	25,265,014	27,199,690	-	391,318	-	2,325,994	2,325,994
Total	\$ 35,114,996	\$ 27,881,964	\$ -	\$ 1,042,338	(8,516,688)	2,325,994	(6,190,694)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					10,638,255	-	10,638,255
Property taxes, levied for debt service					2,939,893	44,885	2,984,778
Unrestricted investment earnings					7,125,188	1,368,441	8,493,629
Miscellaneous					155,939	33,791	189,730
Transfers					(2,500,000)	2,500,000	-
Total general revenues and transfers					18,359,275	3,947,117	22,306,392
Change in net assets					9,842,587	6,273,111	16,115,698
Net assets at beginning of year					121,331,394	163,871,566	285,202,960
Net assets at end of year					\$ 131,173,981	\$ 170,144,677	\$ 301,318,658

The accompanying Notes to the Financial Statements are an integral part of this Statement

Basic Financial Statements

Fund Financial Statements

**Sonoma County Water Agency
Balance Sheet
Governmental Funds**

June 30, 2002

		Special Revenue Funds			
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	Total Governmental Funds
Assets					
Cash and investments	\$ 5,835,255	\$19,587,466	\$ 3,063,909	\$65,399,402	\$ 93,886,032
Receivables	116,476	-	-	-	116,476
Inventories	19,864	-	-	-	19,864
Advance to other funds	613,000	-	-	-	613,000
Total assets	\$ 6,584,595	\$19,587,466	\$ 3,063,909	\$65,399,402	\$ 94,635,372
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 405,478	\$ 497,633	\$ -	\$ -	\$ 903,111
Deferred revenues	10,828	-	-	-	10,828
Total liabilities	416,306	497,633	-	-	913,939
Fund balances					
Reserved for					
Encumbrances	825,247	2,186,515	-	-	3,011,762
Inventories	19,864	-	-	-	19,864
Debt service	-	-	-	65,399,402	65,399,402
Advances	613,000	-	-	-	613,000
Unreserved					
Designated for contingencies	75,000	-	-	-	75,000
Undesignated	4,635,178	16,903,318	3,063,909	-	24,602,405
Total fund balances	6,168,289	19,089,833	3,063,909	65,399,402	93,721,433
Total liabilities and fund balances	\$ 6,584,595	\$19,587,466	\$ 3,063,909	\$65,399,402	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds.	154,380,211
Liabilities, including long-term contracts payable, are not due in the current period and, therefore, are not reported in the funds.	<u>(116,927,663)</u>

Net assets of governmental activities	<u>\$ 131,113,981</u>
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Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2002

	Special Revenue Funds				
	General Fund	Flood Control	Warm Springs Dam	Debt Service Fund	Total Governmental Funds
Revenue					
Property taxes	\$ 4,068,465	\$ 6,569,790	\$ 2,939,893	\$ -	\$ 13,578,148
Investment earnings	311,452	712,143	159,969	5,941,624	7,125,188
Intergovernmental	501,004	103,815	46,201	-	651,020
Charges for services	590,155	92,119	-	-	682,274
Miscellaneous	155,863	76	-	-	155,939
Total revenue	5,626,939	7,477,943	3,146,063	5,941,624	22,192,569
Expenditures					
Current					
Salaries and benefits	16,838,180	-	-	-	16,838,180
Services and supplies	5,078,059	2,203,031	25,889	-	7,306,979
Costs applied	(19,439,543)	-	-	-	(19,439,543)
Capital outlay	318,811	2,615,942	-	-	2,934,753
Debt service					
Principal	-	-	-	1,106,335	1,106,335
Interest and fiscal charges	-	-	1,555,741	2,148,830	3,704,571
Total expenditures	2,795,507	4,818,973	1,581,630	3,255,165	12,451,275
Excess of revenue and other sources over expenditures and other uses	2,831,432	2,658,970	1,564,433	2,686,459	9,741,294
Other financing sources (uses)					
Long-term contract proceeds	-	-	1,555,741	-	1,555,741
Transfers in	-	-	-	3,000,000	3,000,000
Transfers out	(2,500,000)	-	(3,000,000)	-	(5,500,000)
Total other financing sources (uses)	(2,500,000)	-	(1,444,259)	3,000,000	(944,259)
Net changes in fund balances	331,432	2,658,970	120,174	5,686,459	8,797,035
Fund balances at beginning of year, as restated	5,836,857	16,430,863	2,943,735	59,712,943	84,924,398
Fund balances at end of year	\$ 6,168,289	\$ 19,089,833	\$ 3,063,909	\$ 65,399,402	\$ 93,721,433

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities

Year Ended June 30, 2002

Amounts reported for governmental activities in the statement of activities (page 17) are different because:

Net change in fund balances - total governmental funds (page 19)	\$ 8,797,035
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$2,934,753) exceeded depreciation (\$1,385,016) in the current period.	1,549,737
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.	1,106,335
Change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore, is not reported as expenditures in governmental funds.	(54,779)
Long-term contract proceeds which increases the long-term liabilities in the statement of net assets.	(1,555,741)
Changes in net assets of governmental activities (page 17)	\$ 9,842,581

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund - Budgetary Basis

Year Ended June 30, 2002				
	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 3,707,000	\$ 3,707,000	\$ 4,068,465	\$ 361,465
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	149,600	149,600	311,452	161,852
Intergovernmental	176,000	414,000	501,004	87,004
Charges for services	421,300	421,300	590,155	168,855
Miscellaneous	204,000	204,000	155,863	(48,137)
Total revenue	4,659,100	4,897,100	5,626,939	729,839
Expenditures				
Current				
Salaries and employee benefits	18,082,544	18,082,544	16,838,180	1,244,364
Services and supplies	5,357,280	6,052,080	5,376,034	676,046
Costs applied	(21,761,540)	(21,761,540)	(19,439,543)	(2,321,997)
Capital outlay	211,000	461,000	318,811	142,189
Contingencies	500,000	300,000	-	300,000
Total expenditures	2,389,284	3,134,084	3,093,482	40,602
Excess of revenue over expenditures	2,269,816	1,763,016	2,533,457	770,441
Other financing uses				
Transfers out	(2,515,100)	(2,715,100)	(2,500,000)	215,100
Total other financing uses	(2,515,100)	(2,715,100)	(2,500,000)	215,100
Net changes in fund balances	\$ (245,284)	\$ (952,084)	33,457	\$ 985,541
Fund balances at beginning of year			5,836,857	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			<u>297,975</u>	
Fund balances at end of year			<u>\$ 6,168,289</u>	

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Flood Control - Budgetary Basis

Year Ended June 30, 2002				
	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 5,605,589	\$ 5,605,589	\$ 6,569,790	\$ 964,201
Fines, forfeitures and penalties	-	-	-	-
Investment earnings	395,550	395,550	712,143	316,593
Intergovernmental	79,600	79,600	103,815	24,215
Charges for services	-	-	92,119	92,119
Miscellaneous	-	-	76	76
Total revenue	6,080,739	6,080,739	7,477,943	1,397,204
Expenditures				
Current				
Services and supplies	8,927,027	8,927,027	1,932,554	6,994,473
Capital outlay	-	-	645,912	(645,912)
Total expenditures	8,927,027	8,927,027	2,578,466	6,348,561
Excess (deficiency) of revenue over expenditures	(2,846,288)	(2,846,288)	4,899,477	7,745,765
Other financing uses				
Transfers out	(25,000)	(25,000)	-	25,000
Total other financing uses	(25,000)	(25,000)	-	25,000
Net changes in fund balances	\$ (2,871,288)	\$ (2,871,288)	4,899,477	\$ 1,110,165
Fund balances at beginning of year			16,430,863	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			<u>(2,240,507)</u>	
Fund balances at end of year			<u>\$ 19,089,833</u>	

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Special Revenue Fund - Warm Springs Dam - Budgetary Basis

Year Ended June 30, 2002				
	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Property taxes	\$ 2,024,465	\$ 2,024,465	\$ 2,939,893	\$ 915,428
Investment earnings	67,500	67,500	159,969	92,469
Intergovernmental	37,000	37,000	46,201	9,201
Total revenue	2,128,965	2,128,965	3,146,063	1,017,098
Expenditures				
Current				
Services and supplies	840,595	840,595	25,889	814,706
Debt service				
Interest and fiscal charges	-	-	1,555,741	(1,555,741)
Total expenditures	840,595	840,595	1,581,630	(741,035)
Excess of revenue over expenditures	1,288,370	1,288,370	1,564,433	276,063
Other financing sources (uses)				
Long-term contract proceeds	-	-	1,555,741	1,555,741
Transfers out	(3,000,000)	(3,000,000)	(3,000,000)	-
Total other financing sources (uses)	(3,000,000)	(3,000,000)	(1,444,259)	1,555,741
Net changes in fund balances	\$ (1,711,630)	\$ (1,711,630)	120,174	\$ 1,831,804
Fund balances at beginning of year			2,943,735	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			-	
Fund balances at end of year			\$ 3,063,909	

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Debt Service Fund - Budgetary Basis

Year Ended June 30, 2002				
	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis) See Note D	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue				
Investment earnings	\$ 33,750	\$ 33,750	\$ 5,941,624	\$ 5,907,874
Total revenue	33,750	33,750	5,941,624	5,907,874
Expenditures				
Current				
Services and supplies	1,000,000	1,000,000	-	1,000,000
Debt service				
Principal	1,106,335	1,106,335	1,106,335	-
Interest and fiscal charges	2,148,830	2,148,830	2,148,830	-
Total expenditures	4,255,165	4,255,165	3,255,165	1,000,000
Excess (deficiency) of revenue over expenditures	(4,221,415)	(4,221,415)	2,686,459	6,907,874
Other financing sources				
Transfers in	3,000,000	1,431,005	3,000,000	1,568,995
Total other financing sources	3,000,000	1,431,005	3,000,000	1,568,995
Net changes in fund balances	\$ (1,221,415)	\$ (2,790,410)	5,686,459	<u>\$ 8,476,869</u>
Fund balances at beginning of year			59,712,943	
Adjustment from budgetary basis to GAAP				
Timing difference: Encumbrances			<u>-</u>	
Fund balances at end of year			<u>\$ 65,399,402</u>	

Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds

June 30, 2002

	Business-type Activities			
	Enterprise Funds			Internal Service Funds
	Water Transmission	Sanitation	Total	
Assets				
Current assets				
Cash and investments	\$ 16,149,125	\$ 6,046,337	\$ 22,195,462	\$ 7,635,452
Cash and investments with trustee	10,523,018	539	10,523,557	-
Receivables	3,453,934	65,483	3,519,417	62,438
Inventories	240,060	-	240,060	-
Total current assets	30,366,137	6,112,359	36,478,496	7,697,890
Restricted assets				
Cash - revenue bond funds	528,944	129,253	658,197	-
Cash and investments with trustee	1,523,017	96,495	1,619,512	-
Deposits with others	13,000	-	13,000	-
Total restricted assets	2,064,961	225,748	2,290,709	-
Noncurrent assets				
Deferred charges	9,930	196,792	206,722	-
Capital assets (net of accumulated depreciation)				
Land	2,790,676	2,032,163	4,822,839	418,351
Construction in progress	36,380,874	16,462,969	52,843,843	93,675
Buildings and improvements	63,405,450	12,929,579	76,335,029	4,207,352
Equipment	246,898	48,227	295,125	2,161,116
Total capital assets	102,823,898	31,472,938	134,296,836	6,880,494
Total noncurrent assets	102,833,828	31,669,730	134,503,558	6,880,494
Total assets	135,264,926	38,007,837	173,272,763	14,578,384

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Net Assets
Proprietary Funds (continued)

June 30, 2002

	Business-type Activities			
	Enterprise Funds			Internal Service Funds
	Water Transmission	Sanitation	Total	
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	4,043,253	255,829	4,299,082	39,477
Due to other funds	-	7,929	7,929	-
Total current liabilities payable	4,043,253	263,758	4,307,011	39,477
Current liabilities payable from restricted assets				
Deposits from others	4,230	-	4,230	-
Interest payable	23,095	108,691	131,786	-
General obligation bonds payable	-	29,000	29,000	-
Capital lease payable	-	38,549	38,549	-
Revenue bonds payable	1,035,012	140,000	1,175,012	-
Total current liabilities payable from restricted assets	1,062,337	316,240	1,378,577	-
Noncurrent liabilities				
General obligation bonds payable	-	694,000	694,000	-
Capital leases payable	-	806,836	806,836	-
Revenue bonds payable	-	6,254,140	6,254,140	-
Advance from other governments	4,226,429	-	4,226,429	-
Total noncurrent liabilities	4,226,429	7,754,976	11,981,405	-
Total liabilities	9,332,019	8,334,974	17,666,993	39,477
Net assets				
Invested in capital assets, net of related debt	97,562,457	23,510,413	121,072,870	6,880,494
Restricted for debt service	988,866	133,449	1,122,315	-
Unrestricted	27,381,584	6,029,001	33,410,585	7,658,413
Total net assets	\$ 125,932,907	\$ 29,672,863	\$ 155,605,770	\$ 14,538,907

Sonoma County Water Agency
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year Ended June 30, 2002

	Business-type Activities			
	Enterprise Funds			Internal Service Funds
	Water Transmission	Sanitation	Total	
Operating revenue				
Water sales	\$ 23,842,947	\$ -	\$ 23,842,947	\$ -
Water services	30,214	-	30,214	-
Power sales	1,171,459	-	1,171,459	-
Flat charges	-	2,038,003	2,038,003	-
Sanitation services	-	117,067	117,067	-
Equipment rental	-	-	-	1,347,595
Real estate rental	-	-	-	475,742
Miscellaneous	27,881	5,910	33,791	9,035
Total operating revenue	25,072,501	2,160,980	27,233,481	1,832,372
Operating expenses				
Services and supplies	20,529,750	1,727,709	22,257,459	1,331,847
Depreciation and amortization	2,373,002	641,031	3,014,033	713,032
Total operating expenses	22,902,752	2,368,740	25,271,492	2,044,879
Operating income (loss)	2,169,749	(207,760)	1,961,989	(212,507)
Nonoperating revenue (expenses)				
Taxes and assessments	-	44,885	44,885	-
Investment earnings	1,070,290	298,151	1,368,441	318,437
Interest expense	-	(74,762)	(74,762)	-
Intergovernmental revenue	-	931	931	-
Loss on sale of assets	-	-	-	(24,690)
Total nonoperating revenue	1,070,290	269,205	1,339,495	293,747
Net income before contributions and transfers	3,240,039	61,445	3,301,484	81,240
Capital contributions - connection fees	-	390,387	390,387	-
Transfers in	2,500,000	1,700,000	4,200,000	-
Transfers out	(1,700,000)	-	(1,700,000)	-
Change in net assets	4,040,039	2,151,832	6,191,871	81,240
Net assets at beginning of year	121,892,868	27,521,031		14,457,667
Net assets at end of year	\$ 125,932,907	\$ 29,672,863		\$ 14,538,907
Adjustments to reflect the consolidation of internal service funds activities related to enterprise funds			81,240	
Change in net assets of business-type activities			\$ 6,273,111	

The accompanying Notes to the Financial Statements are an integral part of this Statement

Sonoma County Water Agency
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2002

	Business-type Activities			
	Enterprise Funds			Internal Service Funds
	Water Transmission	Sanitation	Total	
Cash flows from operating activities				
Receipts from customers	\$ 25,904,037	\$ 2,188,675	\$ 28,092,712	\$ -
Receipts from interfund services provided	-	-	-	1,782,534
Payments for interfund services used	(10,242,109)	(1,113,539)	(11,355,648)	(1,027,047)
Payments to suppliers	(10,517,532)	(715,387)	(11,232,919)	(312,357)
Net cash provided by operating activities	5,144,396	359,749	5,504,145	443,130
Cash flows from noncapital financing activities				
Taxes and assessments	-	44,885	44,885	-
Intergovernmental revenue	-	931	931	-
Net cash provided by noncapital financing activities	-	45,816	45,816	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(14,173,232)	(7,927,722)	(22,100,954)	(959,471)
Principal paid on capital debt	(1,230,000)	(200,160)	(1,430,160)	-
Interest paid on capital debt	(167,016)	(431,982)	(598,998)	-
Proceeds from long-term debt	-	7,367	7,367	-
Proceeds from sale of capital assets	-	-	-	70,155
Capital contributions - connection fees	-	390,387	390,387	-
Transfers in	2,500,000	1,700,000	4,200,000	-
Transfers out	(1,700,000)	-	(1,700,000)	-
Net cash used in capital and related financing activities	(14,770,248)	(6,462,110)	(21,232,358)	(889,316)
Cash flows from investing activities				
Interest received	1,070,290	298,151	1,368,441	318,437
Net decrease in cash and cash equivalents	(8,555,562)	(5,758,394)	(14,313,956)	(127,749)
Balances at beginning of year	37,279,666	12,031,018	49,310,684	7,763,201
Balances at end of year	\$ 28,724,104	\$ 6,272,624	\$ 34,996,728	\$ 7,635,452
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 2,169,749	\$ (207,760)	\$ 1,961,989	\$ (212,507)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	2,373,002	641,031	3,014,033	713,032
Change in assets and liabilities				
Receivables	831,437	27,693	859,130	(49,838)
Inventories	(21,569)	-	(21,569)	-
Accounts payable and other accrued expenses	(208,223)	(101,215)	(309,438)	(7,557)
Net cash provided by operating activities	\$ 5,144,396	\$ 359,749	\$ 5,504,145	\$ 443,130

The accompanying Notes to the Financial Statements are an integral part of this Statement

**Sonoma County Water Agency
Statement of Fiduciary Net Assets
Fiduciary Funds**

June 30, 2002

Agency
Fund

Assets

Current restricted assets

Cash and investments

\$ 14,100

Total current restricted assets

\$ 14,100

Liabilities

Current liabilities payable from restricted assets

Deposits from others

\$ 14,100

Total current liabilities payable from restricted assets

\$ 14,100

Notes to the Basic Financial Statements

Year Ended June 30, 2002

The notes to the basic purpose financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Restatement of Fund Equity and Net Assets
- Note D. Stewardship, Compliance and Accountability
- Note E. Cash and Investments
- Note F. Capital Assets
- Note G. Employees' Retirement Plan
- Note H. Post Employment Benefits
- Note I. Deferred Compensation Plan
- Note J. Interfund Accounts
- Note K. Leases and Agreements
- Note L. Long-Term Obligations
- Note M. Net Assets
- Note N. Commitments and Contingencies

Note A. Defining the Financial Reporting Entity

The Sonoma County Water Agency (the "Water Agency") was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, and Cotati, as well as Valley of the Moon, Forestville, and North Marin Water Districts). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. These sewer sanitation zones provide sanitation services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's reporting entity. Therefore, the Water Agency's basic financial statements have also been included as a component unit in the County's annual financial report for the fiscal year ended June 30, 2002.

The Sonoma County Water and Wastewater Financing Authority (the "Authority") was established in December 1995 and is a joint powers authority between the Sonoma County Water Agency and the Forestville County Sanitation District (the "District"), created under the laws of the State of California. The Authority was created for the purpose of assisting in the financing of certain public programs and projects of the Water Agency and the District, and for the purpose of aiding in the financing of public capital improvements. The Authority is administered by the Sonoma County Board of Supervisors. The Authority does not issue separate financial statements. The operations of the Authority are included in the Graton Sanitation Zone, a sewer sanitation zone of the Sanitation Fund of the Water Agency.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

Note B. Summary of Significant Accounting Policies*Implementation of Governmental Accounting Standards Board Statements*

The Water Agency has implemented the following pronouncements in the current year:

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis- for State and Local Governments*, and Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments - Omnibus*, respectively. These statements imposed new standards for financial reporting.

Note B. Summary of Significant Accounting Policies (continued)*Implementation of Governmental Accounting Standards Board Statements (continued)**GASB Statement No. 38*

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

GASB Interpretation No. 6

In March 2000, the GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The Water Agency has implemented GASB Statements Nos. 34, 37 and 38 and Interpretation No. 6 for the current year-ended June 30, 2002. These statements are presented according to those requirements as discussed in Note C, Restatement of Fund Equity and Net Assets.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) displays information on the Sonoma County Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support.

The statement of net assets presents the financial condition of the governmental activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Note B. Summary of Significant Accounting Policies (continued)*Measurement focus, basis of accounting, and financial statement presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of when the related cash flows takes place. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within 360 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements, therefore, include reconciliations with brief explanations to better identify their relationship between the government-wide statements and the statements for governmental funds.

For its business-type activities and enterprise funds, the Water Agency uses the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures. Under this basis of accounting, the Water Agency's proprietary fund types apply (a) all GASB pronouncements and (b) only FASB Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Note B. Summary of Significant Accounting Policies (continued)*Measurement focus, basis of accounting, and financial statement presentation (continued)*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Sanitation Fund and of the Water Agency's internal service funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

The Water Agency's financials are presented utilizing the following major funds:

Governmental fund types: These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

General Fund: This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the agency are included in this fund. The fund is charged with all costs of operating the agency for which a separate fund has not been established.

Special Revenue Funds: These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

Flood Control: This fund is established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

Warm Springs Dam: This fund is established for the purpose of accumulating resources for the payment of interest and principal on the long-term federal contract payable to the U.S. Army Corps of Engineers for Waters Storage Rights at Warm Springs Dam.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Proprietary fund types: These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

Water Transmission: This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, Forestville, and North Marin Water Districts).

Sanitation: This fund accounts for the sanitation services and for the engineering, administration and operational services of five zones: Graton, Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

Internal Service Funds: These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. The Water Agency maintains separate internal service funds for equipment and facilities.

Agency Funds: These funds are used to account for assets held by the Water Agency on behalf of others as their agent. These funds are custodial in nature and do not involve measurement of results of operations. Funds held are surety deposits pertaining to river access for gravel mining.

Non-Current Governmental Asset/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

Encumbrances

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of the fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Note B. Summary of Significant Accounting Policies (continued)*Cash and Investments*

The Water Agency's operating cash is pooled with the Sonoma County Treasurer, except for restricted funds held by outside custodians or funds held by a trustee. The County Treasurer also acts as a disbursing agent for the Water Agency. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter.

The Water Agency applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Water Agency has stated certain investments at fair value.

Receivables

The Water Agency's accounts receivable are reported at their gross value and consist primarily of water sales to local water districts and cities.

Inventories

Inventories for governmental and proprietary funds are valued at average cost. Inventories in the General and Water Transmission Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories in the General Fund are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Restricted Assets - Enterprise Funds

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission and Sanitation funds that are restricted for debt service pursuant to various debt covenants. Restricted assets also include amounts for customer deposits.

Capital Assets

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Such assets are stated at cost or, if historical cost is not available, at engineering estimates. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets acquired are capitalized in the respective fund to which it applies. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted to the acquisition or construction of specified assets.

Note B. Summary of Significant Accounting Policies (continued)*Capital Assets (continued)*

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of the assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years.

Bond and Certificates of Participation Discounts and Issuance Costs

Bond and certificates of participation discounts and issuance costs related to debt of proprietary fund types are deferred and amortized over the term of issuance. These discounts and issuance costs are netted against the related debt.

Compensated Absences

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.

Vacation and sick leave expected to be paid in the ensuing year is accrued in the governmental fund types when an event such as termination or retirement is expected to occur, and the remainder is recorded as a long-term obligation. The accrued liability for vacation and sick leave relating to the proprietary funds is recorded in those funds in the period earned.

Property Tax Revenue

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County of Sonoma has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County of Sonoma's financial statements.

Note B. Summary of Significant Accounting Policies (continued)*Net Assets*

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors or laws or regulation of other governments.

Interfund Transactions

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied consist of expenses incurred by the General Fund that have been allocated to the Water Agency's Special Revenue Funds and the Enterprise Fund. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

These amounts are eliminated in the governmental activities columns of the statement of net assets.

Cash Flows

Statement of cash flows are presented for proprietary fund types. For this purpose, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less when purchased are also treated as cash and cash equivalents.

Estimates

The preparation of the basic financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note C. Restatements of Fund Equity and Net Assets

The Water Agency's beginning fund balances have been restated to reflect the cumulative effect of GASB Statement No. 34. The impact of GASB Statement No. 34 on the Water Agency's accounting and financial reporting practices was to report all long-term assets, including capital assets, and liabilities in the statement of net assets in order to more appropriately reflect the nature of the activity. Accordingly, the beginning net assets of the General, Flood Control and Debt Service Funds have been restated.

The beginning fund equity of the General Fund has been restated to reflect the cumulative effect of the implementation of GASB Interpretation No. 6. The impact of this Interpretation was to increase the general fund and to reduce the current portion of the long-term liabilities not considered due and payable.

The impact of the restatements on the fund balance and net assets as previously reported is presented below:

General Fund	
<i>Fund Balance</i>	
Fund balance at June 30, 2001, as previously reported	
governmental fund type:	\$ 5,575,485
GASB Interpretation No. 6 adjustment:	
Reduction in current portion of long-term liabilities	
not considered due and payable	261,372
Fund balance at June 30, 2001 as restated	
governmental fund type	\$ 5,836,857
Governmental Activities	
<i>Net Assets</i>	
Fund balances at June 30, 2001, as previously reported or restated	
governmental fund types:	
General	\$ 5,836,857
Special Revenue	19,374,598
Debt Service	59,712,943
Total fund balances at June 30, 2001, as previously reported	84,924,398
GASB Statement No. 34 adjustments:	
Addition of:	
Net capital assets	152,830,470
Long-term liabilities	(116,423,474)
	36,406,996
Net assets at July 1, 2001	\$ 121,331,394

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note D. Stewardship, Compliance and Accountability*Budget and Budgetary Accounting*

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between the major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the county Administrator and/or Board of Directors. Revisions that change total appropriations must be approved by the Board of Directors. All appropriations lapse at year-end.

Budgetary data, as revised, is presented in the accompanying financial statements for the General, Special Revenue and Debt Service Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of "actual" operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	<u>Special Revenue Funds</u>				
	General Fund	Flood Control	Warm Springs Dam	Debt Service Funds	Total
Excess of revenue and other sources over expenditures and other uses- budgetary basis	\$ 33,457	\$ 4,899,477	\$ 120,174	\$ 5,686,459	\$10,739,567
Expenditure charges against prior year encumbrances	(320,607)	(2,596,463)	-	-	(2,917,070)
Current year encumbrances	618,582	355,956	-	-	974,538
Excess of revenue and other sources over expenditures and other uses- GAAP basis	\$ 331,432	\$ 2,658,970	\$ 120,174	\$ 5,686,459	\$ 8,797,035

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note E. Cash and Investments

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held by outside fiscal agents or trustees under the provisions of bond indentures and lease agreements.

Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the average daily balances by fund during the quarter. Interest income from cash and investments with fiscal agents or trustees is credited directly to the related fund.

Investment Guidelines

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds issued by local agencies
- Registered State Warrants and Municipal Notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County Investment Policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Balance Sheet

A reconciliation of cash and investments shown on the accompanying statement of net assets is as follows:

Cash and investments	\$ 123,716,946
Cash and investments with trustee	10,523,557
Restricted cash for revenue bonds	658,197
Restricted cash and investments with trustee	1,619,512
	<hr/>
	\$ 136,518,212

This balance consists of \$750 in cash on hand and \$136,517,462 in investments.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note E. Cash and Investments (continued)*Investments*

The Water Agency's investments at June 30, 2002 are categorized to give an indication of the level of custodial credit risk assumed by the Water Agency. Category 1 includes investments that are insured or registered, or for which the securities are held by the Water Agency or its agent in the Water Agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Water Agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the Water Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized. Investments held during the year did not vary from those held at year end in type or risk.

At June 30, 2002, investments included the following:

	Category			Carrying Amount
	1	2	3	
U.S. Treasury securities held by County Treasurer	\$ 61,516,584	\$ -	\$ -	\$ 61,516,584
Cash and investments held by trustee	-	-	-	12,143,069
Investment in County Treasurer's pooled cash	-	-	-	62,857,809
	\$ 61,516,584	\$ -	\$ -	\$ 136,517,462

U.S. Treasury Securities

Included in the investments balance are zero-coupon U.S. Government securities which are to be used specifically to fund the repayment of the Water Agency's \$115,320,834 contract payable (see Note L). The securities have a yield of approximately 9.4%, with yield described as the percentage increase in fair value from the prior fiscal year-end. These securities mature in various years ranging from 2002 to 2022.

Investment in County Treasurer's Pooled Cash

As of June 30, 2002, the weighted average maturity of the Treasury Pool was less than two years. Fifty-two percent of the securities in the Treasury Pool have maturities of zero to one year, thirty-nine percent have maturities of one to three years, nine percent have maturities of three to five years, and less than one percent have maturities in excess of five years.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note E. Cash and Investments (continued)*Investment in County Treasurer's Pooled Cash (continued)*

A portion of the securities in the Treasury Pool have variable interest rates that are tied to certain indices such as LIBOR (floating rate securities). Floating rate securities will influence the performance of the portfolio based on the increase/decrease occurring in interest rates over the short term.

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The net increase in the fair value of the Water Agency's investments during fiscal year 2001-02 was \$5,699,878. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The unrealized gain on investments held at year-end amounted to \$46,347,602. Realized gain on investments that matured during fiscal year 2001-2002 amounted to \$487,080.

Net increase (decrease) in fair value of investments during the fiscal year 2001-02 by fund, and included in revenue – investment earnings, were as follows:

General Fund	\$ (688)
Special Revenue Funds - Flood Control and Warm Springs Dam	7,986
Debt Services Fund	5,817,407
Enterprise Funds - Water Transmission and Sanitation	(119,921)
Internal Service Funds	(4,906)
	<hr/>
	\$ 5,699,878

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note F. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance July 1, 2001	Increase	Decrease	Ending Balance June 30, 2002
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Intangible assets - water storage rights	\$ 102,371,000	\$ -	\$ -	\$ 102,371,000
Land	1,286,938	250,590	-	1,537,528
Construction in progress	7,176,266	2,221,362	-	9,397,628
Total capital assets, not being depreciated	110,834,204	2,471,952	-	113,306,156
Capital assets, being depreciated:				
Infrastructure	48,324,783	418,929	-	48,743,712
Buildings and improvements	3,308,457	-	-	3,308,457
Equipment	910,604	43,876	-	954,480
Total capital assets being depreciated	52,543,844	462,805	-	53,006,649
Less accumulated depreciation for:				
Infrastructure	(9,309,610)	(1,210,452)	-	(10,520,062)
Buildings and improvements	(787,056)	(81,522)	-	(868,578)
Equipment	(450,912)	(93,042)	-	(543,954)
Total accumulated depreciation	(10,547,578)	(1,385,016)	-	(11,932,594)
Total capital assets, being depreciated, net	41,996,266	(922,211)	-	41,074,055
Governmental activities capital assets, net	\$ 152,830,470	\$ 1,549,741	\$ -	\$ 154,380,211

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note F. Capital Assets (continued)*Warm Springs Dam Project*

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is 30.2% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long term contract payable within the governmental activities (Note L). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type activities</i>				
Capital assets, not being depreciated:				
Land	\$ 5,199,100	\$ 42,090	\$ -	\$ 5,241,190
Construction in progress	31,708,659	24,543,024	(3,314,165)	52,937,518
Total capital assets, not being depreciated	36,907,759	24,585,114	(3,314,165)	58,178,708
Capital assets, being depreciated:				
Buildings and improvements	120,348,467	3,314,163	-	123,662,630
Equipment	5,934,380	803,623	(331,809)	6,406,194
Total capital assets, being depreciated	126,282,847	4,117,786	(331,809)	130,068,824
Less accumulated depreciation for:				
Buildings and improvements	(39,960,459)	(3,159,790)	-	(43,120,249)
Equipment	(3,655,353)	(531,563)	236,963	(3,949,953)
Total accumulated depreciation	(43,615,812)	(3,691,353)	236,963	(47,070,202)
Total capital assets, being depreciated, net	82,667,035	426,433	(94,846)	82,998,622
Business-type activities capital assets, net	\$ 119,574,794	\$ 25,011,547	\$ (3,409,011)	\$ 141,177,330

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note F. Capital Assets (continued)

The total amount of interest capitalized into capital assets of business-type activities during the year amounted to \$508,924.

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

Governmental activities

General government	\$ 96,103
Spring Lake Park	78,461
Flood Control Zones, including depreciation of infrastructure assets	1,210,452

Total depreciation expense - governmental activities	\$ 1,385,016
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Business-type activities

Water	\$ 2,345,842
Sanitation	1,345,511

Total depreciation expense - business-type activities	\$ 3,691,353
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Note G. Employees' Retirement Plan*Plan Description*

The Water Agency contributes to Sonoma County's single-employer public employee retirement plan (the "Plan") that is administered by the Sonoma County Employees' Retirement Association (the "Retirement Association"). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County of Sonoma (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2001, is on file at the County Auditors' Office.

Funding Status

Plan members were required to contribute 4.88% - 9.42%, depending upon their age at their date of entry, of their annual covered salary at June 30, 2002. The Water Agency is required to contribute at an actuarially determined rate which was 12.57% of annual covered payroll at June 30, 2002. The Water Agency's contributions to the Plan during the years ended June 30, 2000, 2001, and 2002 were \$1,144,455, \$1,297,363, and \$1,526,474, respectively, equal to the required contribution each year.

Note G. Employees' Retirement Plan (continued)*Funding Status (continued)*

The Water Agency's total payroll for covered employees for the plan year ended December 31, 2001 was \$11,953,270, which represents approximately 5.25% of the Retirement Association's payroll for covered employees.

Note H. Post Employment Benefits

In addition to the pension benefits described in Note G, the Water Agency provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The Water Agency pays approximately 86% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The Water Agency reimburses a fixed amount of \$54.00 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The cost of post-retirement health care benefits are recognized as an expenditure as the Water Agency reimburses the County for premiums paid. The financial statement for the County of Sonoma (the primary government) contains the financial information for the post-employment benefits, which is not presented here because the Water Agency portion cannot be separated from the whole.

Note I. Deferred Compensation Plan

The Water Agency participates in the County of Sonoma deferred compensation plan (the "Plan") which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore are not recorded as assets of the County. Each employee directs the investment of the assets in his or her account.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note J. Interfund Accounts*Interfund Receivables/Payables*

At June 30, 2002, interfund balances are as follows:

Government activities

Advances to/(from) other funds

Receivable Fund	Payable Fund	Amount
County of Sonoma	Sonoma County Water Agency - General Fund	\$ (555,400)
Sonoma County Water Agency - General Fund	Forestville Sanitation District	555,400
Sonoma County Water Agency - General Fund	Occidental Sanitation District	250,000
Sonoma County Water Agency - General Fund	Forestville Sanitation District	363,000
Total		\$ 613,000

Business-type activities

(Due to)/from other funds

Receivable Fund	Payable Fund	Amount
Occidental Sanitation District	Sonoma County Water Agency - Sanitation - ALW	\$ (7,929)
Total		\$ (7,929)

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "(due to)/from other funds" (i.e., the current portion of interfund loans) or "advances to/(from) other funds" (i.e., the non-current portion of interfund loans).

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note J. Interfund Accounts (continued)*Transfers*

A summary of transfer activity is as follows:

Transfer from	Transfer to	Amount	Purpose
General Fund	Water Transmission Fund	\$ 2,500,000	Provide funding to cover portion of Russian River projects (\$1,000,000) and recycled water projects (\$1,500,000).
Water Transmission Fund	Sanitation Fund	1,700,000	Provide funding from the recycled water portion of Water Transmission to cover portion of construction projects within Sanitation.
Warm Springs Dam Fund	Debt Service Fund	3,000,000	Transfer funds for scheduled principal and interest payments.
		\$ 7,200,000	

Note K. Leases and Agreements

The Water Agency entered into a lease agreement on December 1, 1995 with the Sonoma County Water and Wastewater Financing Authority. The Sonoma County Water and Wastewater Financing Authority ("the Authority") is a joint powers authority created to provide financial assistance to the Water Agency by constructing and financing the Forestville and Graton Regional Wastewater Facilities Improvement Project, and by leasing these improvements to the Water Agency. The Authority is administered by the Board, whose members are the Board of Supervisors of the County, acting in its ex-officio capacity as the Board of Directors of the Water Agency.

The financing terms of this lease agreement have been disclosed in Note L as a capital lease payable.

Operating Lease

The Water Agency has a lease agreement for office facilities through February 2003. Operating costs and property taxes on the leased premises are included in the rental payments. Rental expense for 2002, amounted to \$344,003. Future minimum lease payments are as follows:

Year ending June 30, 2003	\$ 223,010
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Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations

Debt at June 30, 2002, consists of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 723,000
Capital lease payable	-	845,385
Water revenue bonds payable	-	1,040,000
Water and Wastewater revenue bonds payable	-	6,435,000
Advance from other governments	-	4,226,429
Long-term contracts payable	115,320,834	-
Compensated absences	1,606,829	-
	<u>\$ 116,927,663</u>	<u>\$ 13,269,814</u>

Business-type activities

General Obligation Bonds

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2002</u>
<u>Sanitation Zones</u>				
1976 Graton	2016	5%	\$ 350,000	\$ 197,000
1977 Pennngrove	2017	5%	300,000	189,000
1980 Geyserville	2020	5%	500,000	337,000
Total outstanding				723,000
Less current maturities				(29,000)
Long-term obligation				<u>\$ 694,000</u>

Sanitation General Obligation Bonds are repaid from tax revenues.

Capital Lease Payable - Revenue Bonds, Series 1995

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized & Issued</u>	<u>Outstanding June 30, 2002</u>
Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995				
	2016	6.5%	\$ 1,031,364	\$ 845,385
Less current maturities				(38,549)
Long-term obligation				<u>\$ 806,836</u>

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)*Business-type activities (continued)*

Capital Lease Payable - Revenue Bonds, Series 1995 (continued)

The Forestville and Graton Regional Wastewater Facilities Improvement Project Revenue Bonds, Series 1995 are to be paid from the sewer revenues of the Graton Sanitation Zone, with interest payments made semi-annually.

Water Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2002</u>
1971 Revenue Bonds, Series 1993A	2003	2.5 - 5.375%	\$ 10,060,000	\$ 1,040,000
Less unamortized discount				(4,988)
<u>Current portion of long-term payable, net of discount</u>				<u>\$ 1,035,012</u>

The terms covering the 1971 Series 1993A Water Revenue Bonds provide that the revenue be pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, the use of revenue is limited to the priorities set forth in Article V of the Bond Ordinance No. 1, adopted December 28, 1970 and as amended. While these bonds are outstanding, the Water Agency may not create any liens upon, or sell, or otherwise dispose of the Water System or any property essential to the proper operation of the Water System or to the maintenance of the revenue.

For reporting purposes, unamortized bond issuance costs related to the 1971 Series 1993A Water Revenue Bonds in the amount of \$4,988 has been netted against the remaining current portion of outstanding debt at June 30, 2002.

Water and Wastewater Revenue Bonds Payable

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2002</u>
California Statewide Communities Development Authority (CSCDA) 2000B Revenue Bonds	2026	4.0 - 5.65%	\$ 6,570,000	\$ 6,435,000
Less current portion				(140,000)
				6,295,000
Less unamortized discount				(40,860)
<u>Long-term payable, net of discount</u>				<u>\$ 6,254,140</u>

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)*Business-type activities (continued)*

Water and Wastewater Revenue Bonds Payable (continued)

The terms covering the CSCDA 2000B Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other money for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Advances from Other Governments

The Water Agency is in process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources is loaning approximately \$15,000,000 to assist in the financing of this project. As of June 30, 2002, the Water Agency had received loan funds in the amount of \$4,226,429. Repayment of this loan will commence upon completion of the project.

Governmental activities

Long-Term Contracts Payable	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2002</u>
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$ 115,320,834

The terms of the agreement with the Department of the Army Corps of Engineers stipulates that interest accrued on the contract prior to the time of the first payment be compounded annually and added to the principal. As a result of adding the accrued interest, the long-term contracts payable was increased by \$1,555,741 for 2002. This addition does not affect the operating funds of the Water Agency. As of June 30, 2002, total unpaid accrued interest that has been applied to principal per the terms of the agreement amounted to \$16,100,658.

Annual payments on the contract commenced on November 1, 1993, and will continue until 2034. The annual payments will include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues of the Water Agency. The amount of the payments began at \$930,562 and will increase to \$6,285,571 during the life of the contract.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)*Compensated Absences*

At June 30, 2002, vested vacation and an accrual for vested sick leave for Agency employees amounted to \$1,606,829. There were no compensated absences expected to be liquidated with current available resources. The balance of this obligation is recorded as a noncurrent liability. Compensated absences are generally liquidated by the General Fund.

Changes in Long-Term Obligations

A summary of changes in long-term obligations is as follows:

	<u>July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2002</u>
<u>Business-type activities</u>				
General Obligation Bonds \$	752,000	\$ -	\$ 29,000	\$ 723,000
Capital Lease Payable -				
Revenue Bonds,				
Series 1995	881,545	-	36,160	845,385
Water Revenue Bonds				
Series 1993A	2,270,000	-	1,230,000	1,040,000
Water and Wastewater				
Revenue Bonds Series				
2000B	6,570,000	-	135,000	6,435,000
Advance from Other				
Governments	-	4,226,429	-	4,226,429
Total business-type activities	10,473,545	4,226,429	1,430,160	13,269,814
<u>Governmental activities</u>				
Long-term contracts				
payable	114,871,428	1,555,741	1,106,335	115,320,834
Compensated absences	1,552,046	1,413,607	1,358,824	1,606,829
Total governmental activities	116,423,474	2,969,348	2,465,159	116,927,663
Total outstanding	\$ 126,897,019	\$ 7,195,777	\$ 3,895,319	\$ 130,197,477

Annual Requirements

The annual principal and interest requirements on the long-term debt outstanding at June 30, 2002 (excluding compensated absences), are as follows at June 30 of each year listed:

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)*General Obligation Bonds*

Year ending June 30,	Principal	Interest	Total
2003	\$ 29,000	\$ 35,725	\$ 64,725
2004	32,000	34,225	66,225
2005	32,000	32,625	64,625
2006	34,000	31,000	65,000
2007	36,000	28,850	64,850
2008 - 2012	206,000	117,375	323,375
2013 - 2017	260,000	59,800	319,800
2018 - 2021	94,000	8,900	102,900
	\$ 723,000	\$ 348,500	\$ 1,071,500

Capital Lease Payable

Year ending June 30,	Principal	Interest	Total
2003	\$ 38,549	\$ 54,334	\$ 92,883
2004	41,095	51,787	92,882
2005	43,810	49,073	92,883
2006	46,704	46,179	92,883
2007	49,789	43,094	92,883
2008 - 2012	302,845	161,569	464,414
2013 - 2016	322,593	48,938	371,531
	\$ 845,385	\$ 454,974	\$ 1,300,359

Water Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2003	\$ 1,040,000	\$ 38,733	\$ 1,078,733

Water & Wastewater Revenue Bonds

Year ending June 30,	Principal	Interest	Total
2003	\$ 140,000	\$ 332,895	\$ 472,895
2004	145,000	327,016	472,016
2005	150,000	320,858	470,858
2006	160,000	314,308	474,308
2007	165,000	307,360	472,360
2008 - 2012	945,000	1,418,283	2,363,283
2013 - 2017	1,205,000	1,166,090	2,371,090
2018 - 2022	1,525,000	796,791	2,321,791
2023 - 2027	2,000,000	298,039	2,298,039
	\$ 6,435,000	\$ 5,281,640	\$ 11,716,640

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note L. Long-Term Obligations (continued)*Long-Term Contracts Payable*

Year ending June 30,	Principal	Interest	Total
2003	\$ 1,142,014	\$ 2,113,151	\$ 3,255,165
2004	1,178,844	2,076,321	3,255,165
2005	1,216,862	2,038,303	3,255,165
2006	1,256,106	1,999,059	3,255,165
2007	2,503,671	3,781,900	6,285,571
2008 - 2012	13,782,863	17,644,994	31,427,857
2013 - 2017	16,153,398	15,274,459	31,427,857
2018 - 2022	18,931,646	12,496,211	31,427,857
2023 - 2027	22,187,727	9,240,130	31,427,857
2028 - 2032	26,003,828	5,424,029	31,427,857
2033 - 2034	17,705,088	1,151,628	18,856,716
Total debt	122,062,047	73,240,185	195,302,232
Future accrued interest to be applied to principal	(6,741,213)	6,741,213	-
	\$115,320,834	\$ 79,981,398	\$ 195,302,232

Note M. Net Assets

Net assets consists of three components representing reserved and unreserved amounts: 1) invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. Investment in capital assets, net of related debt represents the Agency's equity interest in its capital assets, while restricted net assets are those subject to restrictions beyond the Agency's control, such as those externally imposed by creditors or law. Any remaining balance of net assets is reported as unrestricted net assets.

Portions of unrestricted net assets, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

Designated Fund Balance

General Fund

Contingencies

\$ 75,000

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note N. Commitments and Contingencies*Construction*

The Water Agency has active construction projects as of June 30, 2002. The projects include expansion and/or improvements of several water storage and wastewater treatment facilities. At June 30, 2002, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Common facilities	\$ 21,794,185	\$ 1,160,241
Russian River Projects	5,537,162	54,204
Water storage facilities	8,884,422	1,872,236
Wastewater treatment facilities	16,462,971	35,646
Total	\$ 52,678,740	\$ 3,122,327

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and wastewater treatment facilities are being financed by revenue bonds, a Federal contract payable and a construction loan provided by State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.

Risk Management

The Water Agency is covered by the County of Sonoma's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$750,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority ("CSAC-EIA"). Limits of this coverage are \$10,000,000. Additional coverage with limits of \$5,000,000 excess of the underlying \$10,000,000 is maintained through a joint-purchase excess liability coverage provided by Lexington Insurance, administered through CSAC-EIA for a total limit per occurrence of \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

Notes to the Basic Financial Statements

Year Ended June 30, 2002

Note N. Commitments and Contingencies (continued)*Risk Management (continued)*

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the fiscal year 2001-02, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$87,313. Settlements have not exceeded coverages for each of the past three fiscal years.

Economic Dependence

Four major customers purchased water from the Water Agency during the year ended June 30, 2002. The sales to, and accounts receivable from, those customers are as follows:

Sales		% of total
Santa Rosa	\$ 8,623,565	36.2
Petaluma	3,917,433	16.4
Marin Municipal	3,666,443	15.4
North Marin County	3,369,827	14.1
	\$ 19,577,268	82.1
<hr/>		
Accounts Receivable at June 30, 2002		% of total
Santa Rosa	\$ 894,425	25.9
Petaluma	429,202	12.4
Marin Municipal	750,182	21.7
North Marin County	574,236	16.6
	\$ 2,648,045	76.6

Pending Litigation and Claims

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Federal Clean Water Act, environmental clean-up costs, property damage and land use decisions. With regard to the current claims and litigation, the amount of ultimate liability, if any, to the Water Agency is not determinable at this time. Management believes that the ultimate resolution of these claims and litigation will not have any materially adverse effect upon the financial condition of the Water Agency.

Note N. Commitments and Contingencies (continued)

Other Regulatory Matters

Proceedings before the Federal Energy Regulatory Commission ("FERC") could result in reductions in the amount of water diverted from the Eel River into the Russian River, thus reducing one of the Water Agency's sources of supply. Legal counsel, representing the Water Agency at these proceedings, as well as management cannot estimate the likelihood of reduced flows or the effect such reduction would have on the Water Agency's water supplies and water-sale revenues.

Supplementary Information

Sonoma County Water Agency

Combining Balance Sheet - Special Revenue Funds

June 30, 2002

	Flood Control Fund							Total Flood Control Fund	Warm Springs Dam Fund	Total
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast				
Assets										
Cash and investments	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375	
Total assets	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375	
Liabilities and fund balances										
Liabilities										
Accounts payable	\$ 489,493	\$ 8,140	\$ -	\$ -	\$ -	\$ -	\$ 497,633	\$ -	\$ 497,633	
Deferred revenues	-	-	-	-	-	-	-	-	-	
Total liabilities	489,493	8,140	-	-	-	-	497,633	-	497,633	
Fund balances										
Reserved for encumbrances	2,186,515	-	-	-	-	-	2,186,515	-	2,186,515	
Unreserved										
Undesignated	8,785,619	5,056,527	1,187,443	1,026,942	63,212	783,575	16,903,318	3,063,909	19,967,227	
Total fund balances	10,972,134	5,056,527	1,187,443	1,026,942	63,212	783,575	19,089,833	3,063,909	22,153,742	
Total liabilities and fund balances	\$ 11,461,627	\$ 5,064,667	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,587,466	\$ 3,063,909	\$ 22,651,375	

Sonoma County Water Agency
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Special Revenue Funds

June 30, 2002

	Flood Control Fund							Warm Springs Dam Fund	Total
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Fund		
Revenue									
Property taxes	\$ 4,708,651	\$ 1,225,436	\$ 455,175	\$ 101,441	\$ -	\$ 79,087	\$ 6,569,790	\$ 2,939,893	\$ 9,509,683
Investment earnings	393,906	205,513	38,546	41,069	2,617	30,492	712,143	159,969	872,112
Intergovernmental	76,015	16,706	8,139	1,677	-	1,278	103,815	46,201	150,016
Charges for services	92,119	-	-	-	-	-	92,119	-	92,119
Miscellaneous	76	-	-	-	-	-	76	-	76
Total revenue	5,270,767	1,447,655	501,860	144,187	2,617	110,857	7,477,943	3,146,063	10,624,006
Expenditures									
Current									
Salaries and benefits	-	-	-	-	-	-	-	-	-
Services and supplies	1,882,038	239,410	40,559	39,789	-	1,235	2,203,031	25,889	2,228,920
Costs applied	-	-	-	-	-	-	-	-	-
Capital outlay	1,326,158	1,288,330	1,454	-	-	-	2,615,942	-	2,615,942
Debt service									
Principal	-	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	1,555,741	1,555,741
Total expenditures	3,208,196	1,527,740	42,013	39,789	-	1,235	4,818,973	1,581,630	6,400,603
Excess of revenue and other sources over expenditures and other uses	2,062,571	(80,085)	459,847	104,398	2,617	109,622	2,658,970	1,564,433	4,223,403
Other financing sources (uses)									
Long-term contract proceeds	-	-	-	-	-	-	-	1,555,741	1,555,741
Transfers in	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)
Total other financing sources (uses)	-	-	-	-	-	-	-	(1,444,259)	(1,444,259)
Net changes in fund balances	2,062,571	(80,085)	459,847	104,398	2,617	109,622	2,658,970	120,174	2,779,144
Fund balances at beginning of year	8,909,563	5,136,612	727,596	922,544	60,595	673,953	16,430,863	2,943,735	19,374,598
Fund balances at end of year	\$ 10,972,134	\$ 5,056,527	\$ 1,187,443	\$ 1,026,942	\$ 63,212	\$ 783,575	\$ 19,089,833	\$ 3,063,909	22,153,742

Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds

June 30, 2002

	Sanitation Fund							
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	Water Transmission Fund	Total
Assets								
Current assets								
Cash and investments	\$ 875,910	\$ 1,275,183	\$ 945,452	\$ 681,471	\$ 2,268,321	\$ 6,046,337	\$ 16,149,125	\$ 22,195,462
Cash and investment with trustee	-	-	-	-	539	539	10,523,018	10,523,557
Receivables	22,609	3,140	9,670	10,804	19,260	65,483	3,453,934	3,519,417
Inventories	-	-	-	-	-	-	240,060	240,060
Total current assets	898,519	1,278,323	955,122	692,275	2,288,120	6,112,359	30,366,137	36,478,496
Restricted assets								
Cash - revenue bond funds	31,864	-	23,987	73,402	-	129,253	528,944	658,197
Cash and investment with trustee	96,495	-	-	-	-	96,495	1,523,017	1,619,512
Deposits with others	-	-	-	-	-	-	13,000	13,000
Total restricted assets	128,359	-	23,987	73,402	-	225,748	2,064,961	2,290,709
Noncurrent assets								
Deferred charges	20,143	-	-	-	176,649	196,792	9,930	206,722
Capital assets (net of accumulated depreciation):								
Land	417,205	-	-	106,213	1,508,745	2,032,163	2,790,676	4,822,839
Construction in progress	96,376	259,521	591	86,002	16,020,479	16,462,969	36,380,874	52,843,843
Buildings and improvements	2,246,684	400,268	933,349	1,140,082	8,209,196	12,929,579	63,405,450	76,335,029
Equipment	-	10,860	-	-	37,367	48,227	246,898	295,125
Total capital assets	2,760,265	670,649	933,940	1,332,297	25,775,781	31,472,938	102,823,898	134,296,836
Total noncurrent assets	2,780,408	670,649	933,940	1,332,297	25,952,436	31,669,730	102,833,828	134,503,558
Total assets	3,807,286	1,948,972	1,913,049	2,097,974	28,240,556	38,007,837	135,264,926	173,272,763

Sonoma County Water Agency
Combining Statement of Net Assets-
Enterprise Funds (continued)

June 30, 2002

	Sanitation Fund								
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	Water Transmission Fund	Total	
Liabilities									
Current liabilities									
Accounts payable and accrued expenses	\$ 6,071	\$ 17,384	\$ 61,048	\$ 2,474	\$ 168,852	\$ 255,829	\$ 4,043,253	\$ 4,299,082	
Due to other funds	-	-	-	-	7,929	7,929	-	7,929	
Total current liabilities payable	6,071	17,384	61,048	2,474	176,781	263,758	4,043,253	4,307,011	
Current liabilities payable from restricted assets									
Deposits from others	-	-	-	-	-	-	4,230	4,230	
Interest payable	21,600	-	3,150	-	83,941	108,691	23,095	131,786	
General obligation bonds payable	9,000	-	8,000	12,000	-	29,000	-	29,000	
Capital lease payable	38,549	-	-	-	-	38,549	-	38,549	
Revenue bonds payable	-	-	-	-	140,000	140,000	1,035,012	1,175,012	
Total current liabilities payable from restricted assets	69,149	-	11,150	12,000	223,941	316,240	1,062,337	1,378,577	
Noncurrent liabilities									
General obligation bonds payable	188,000	-	181,000	325,000	-	694,000	-	694,000	
Capital leases payable	806,836	-	-	-	-	806,836	-	806,836	
Revenue bonds payable	-	-	-	-	6,254,140	6,254,140	-	6,254,140	
Advance from other governments	-	-	-	-	-	-	4,226,429	4,226,429	
Total noncurrent liabilities	994,836	-	181,000	325,000	6,254,140	7,754,976	4,226,429	11,981,405	
Total liabilities	1,070,056	17,384	253,198	339,474	6,654,862	8,334,974	9,332,019	17,666,993	
Net assets									
Invested in capital assets, net of related debt	1,717,880	670,649	744,940	995,297	19,381,647	23,510,413	97,562,457	121,072,870	
Restricted for debt service	59,210	-	12,837	61,402	-	133,449	988,866	1,122,315	
Unrestricted	960,140	1,260,939	902,074	701,801	2,204,047	6,029,001	27,381,584	33,410,585	
Total net assets	\$ 2,737,230	\$ 1,931,588	\$ 1,659,851	\$ 1,758,500	\$ 21,585,694	\$ 29,672,863	\$ 125,932,907	\$ 155,605,770	

Sonoma County Water Agency
Combining Statement of Revenues, Expenses and Changes in Net Assets -
Enterprise Funds

June 30, 2002

	Sanitation Fund						Water Transmission Fund	Total
	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund		
Operating revenue								
Water sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,842,947	\$ 23,842,947
Water services	-	-	-	-	-	-	30,214	30,214
Power sales							1,171,459	1,171,459
Flat charges	433,631	279,136	247,745	165,546	911,945	2,038,003	-	2,038,003
Sanitation services	6,304	4,481	5,940	2,366	97,976	117,067	-	117,067
Equipment rental	-	-	-	-	-	-	-	-
Real estate rental	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	5,910	5,910	27,881	33,791
Total operating revenue	439,935	283,617	253,685	167,912	1,015,831	2,160,980	25,072,501	27,233,481
Operating expenses								
Services and supplies	287,399	256,926	234,553	133,029	815,802	1,727,709	20,529,750	22,257,459
Depreciation and amortization	113,774	36,404	39,157	67,335	384,361	641,031	2,373,002	3,014,033
Total operating expenses	401,173	293,330	273,710	200,364	1,200,163	2,368,740	22,902,752	25,271,492
Operating income (loss)	38,762	(9,713)	(20,025)	(32,452)	(184,332)	(207,760)	2,169,749	1,961,989
Nonoperating revenue (expenses)								
Taxes and assessments	12,911	-	13,362	18,612	-	44,885	-	44,885
Investment earnings	36,897	54,005	44,796	33,062	129,391	298,151	1,070,290	1,368,441
Interest expense	(60,566)	9,597	(9,517)	(14,276)	-	(74,762)	-	(74,762)
Intergovernmental revenue	351	-	229	351	-	931	-	931
Total nonoperating revenue	(10,407)	63,602	48,870	37,749	129,391	269,205	1,070,290	1,339,495
Net income before contributions and transfers	28,355	53,889	28,845	5,297	(54,941)	61,445	3,240,039	3,301,484
Capital contributions - connection fees	15,455	429	14,115	2,277	358,111	390,387	-	390,387
Transfers in	-	-	-	-	1,700,000	1,700,000	2,500,000	4,200,000
Transfers out	-	-	-	-	-	-	(1,700,000)	(1,700,000)
Change in net assets	43,810	54,318	42,960	7,574	2,003,170	2,151,832	4,040,039	6,191,871
Net assets at beginning of year	2,693,420	1,877,270	1,616,891	1,750,926	19,582,524	27,521,031	121,892,868	149,413,899
Net assets at end of year	\$ 2,737,230	\$ 1,931,588	\$ 1,659,851	\$ 1,758,500	\$ 21,585,694	\$ 29,672,863	\$ 125,932,907	\$ 155,605,770

Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds

June 30, 2002

	Sanitation Fund								
	Sears Point	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund	Water Transmission Fund	Total
Cash flows from operating activities									
Receipts from customers	\$ -	\$ 432,280	\$ 282,997	\$ 259,333	\$ 166,479	\$ 1,047,586	\$ 2,188,675	\$ 25,904,037	\$ 28,092,712
Payments for interfund services used	-	(194,421)	(128,025)	(99,046)	(109,083)	(582,964)	(1,113,539)	(10,242,109)	(11,355,648)
Payments to suppliers	(20,679)	(91,948)	(124,687)	(251,281)	(22,926)	(203,866)	(715,387)	(10,517,532)	(11,232,919)
Net cash provided by operating activities	(20,679)	145,911	30,285	(90,994)	34,470	260,756	359,749	5,144,396	5,504,145
Cash flows from noncapital financing activities									
Taxes and assessments	-	12,911	-	13,362	18,612	-	44,885	-	44,885
Intergovernmental revenue	-	351	-	229	351	-	931	-	931
Net cash provided by noncapital financing activities	-	13,262	-	13,591	18,963	-	45,816	-	45,816
Cash flows from capital and related financing activities									
Purchase of capital assets	-	(16,822)	(147,735)	-	(77,955)	(7,685,210)	(7,927,722)	(14,173,232)	(22,100,954)
Principal paid on capital debt	-	(45,160)	-	(8,000)	(12,000)	(135,000)	(200,160)	(1,230,000)	(1,430,160)
Interest paid on capital debt	-	(66,797)	-	(9,650)	(17,150)	(338,385)	(431,982)	(167,016)	(598,998)
Proceeds from long-term debt	-	-	-	-	-	7,367	7,367	-	7,367
Capital contributions - connection fees	-	15,455	429	14,115	2,277	358,111	390,387	-	390,387
Transfers in	-	-	-	-	-	1,700,000	1,700,000	2,500,000	4,200,000
Transfers out	-	-	-	-	-	-	-	(1,700,000)	(1,700,000)
Net cash used in capital and related financing activities	-	(113,324)	(147,306)	(3,535)	(104,828)	(6,093,117)	(6,462,110)	(14,770,248)	(21,232,358)
Cash flows from investing activities									
Interest received	-	36,897	54,005	44,796	33,062	129,391	298,151	1,070,290	1,368,441
Net decrease in cash and cash equivalents	(20,679)	82,746	(63,016)	(36,142)	(18,333)	(5,702,970)	(5,758,394)	(8,555,562)	(14,313,956)
Balances at beginning of year	20,679	921,523	1,338,199	1,005,581	773,206	7,971,830	12,031,018	37,279,666	49,310,684
Balances at end of year	\$ -	\$ 1,004,269	\$ 1,275,183	\$ 969,439	\$ 754,873	\$ 2,268,860	\$ 6,272,624	\$ 28,724,104	\$ 34,996,728

Sonoma County Water Agency
Combining Statement of Cash Flows -
Enterprise Funds (continued)

June 30, 2002

	Sanitation Fund							Water Transmission Fund	Total
	Sears Point	Graton	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	Total Sanitation Fund		
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	\$ -	\$ 38,762	\$ (9,713)	\$ (20,025)	\$ (32,452)	\$ (184,332)	\$ (207,760)	\$ 2,169,749	\$ 1,961,989
Adjustments to reconcile operating income (loss) to net cash provided by operating activities									
Depreciation and amortization expense	-	113,774	36,404	39,157	67,335	384,361	641,031	2,373,002	3,014,033
Change in assets and liabilities									
Receivables	-	(7,648)	(620)	5,638	(1,432)	31,755	27,693	831,437	859,130
Inventories	-	-	-	-	-	-	-	(21,569)	(21,569)
Accounts payable and other accrued expenses	(20,679)	1,023	4,214	(115,764)	1,019	28,972	(101,215)	(208,223)	(309,438)
Net cash provided by operating activities	\$ (20,679)	\$ 145,911	\$ 30,285	\$ (90,994)	\$ 34,470	\$ 260,736	\$ 359,749	\$ 2,144,396	\$ 2,504,145

Compliance

**Independent Auditors' Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors
Sonoma County Water Agency
Santa Rosa, California

We have audited the basic financial statements of the **Sonoma County Water Agency** as of and for the year ended June 30, 2002, and have issued our report thereon dated September 17, 2002 . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **Sonoma County Water Agency's** basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Sonoma County Water Agency's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Sonoma County Water Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

**Independent Auditors' Report on Compliance and on Internal
Control Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards (continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the management, Board of Supervisors, County of Sonoma, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Prinzi & Brinker LLP

Santa Rosa, California
September 17, 2002

Schedule of Findings and Questioned Costs

Year Ended June 30, 2002

Section I. Summary of Auditors' ResultsBasic Financial StatementsType of auditors' report issued: *unqualified*

Internal control over financial reporting:

Material weaknesses identified _____ yes X noReportable conditions identified not considered
to be material weaknessesX yes _____ no

Noncompliance material to financial statements noted

_____ yes X no**Section II. Financial Statement Findings***Condition deemed not to be material weaknesses*

The following observation was made this year:

Accounts Payable

Item 02-01

Observation

During our audit, we noted two invoices amounting to \$710,038 that were recorded in an Enterprise Fund in the incorrect period, one of which was for a construction in progress billing. Under generally accepted accounting principles, accounts payable should be recorded in the period goods or services are received.

Recommendation

We recommend procedures be established to ensure the Water Agency is receiving construction in progress reports and recording the obligations in the proper accounting period. In addition, we recommend that all invoices be recorded in the accounting records in the proper accounting period when received and approved.

Water Agency's Response

Year-end processing of construction in progress payments and new Board items creates a challenge in terms of timing. During the past year, we created an additional control using a spreadsheet of pending items for year-end processing. Unfortunately, the timing of new contracts near year end creates a difficult problem of foreseeing those items that will be approved prior to year end and accountable within the closing year. We have just established another control sheet for items sent back to Engineering for additional processing near year end. This will provide one more control. We will take the additional step of coordinating with the Executive secretary responsible for scheduling Board items to monitor items scheduled for Board action near the end of the year. These controls in total will help us ensure all invoices are recorded in the accounting records in the proper accounting period.